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The University of Iowa Center for Advancement (UICA)
Quarterly Investment Report – December 31, 2020

Overview

The calendar year witnessed a global pandemic that slowed growth and stoked fears of disinflation, followed by record fiscal and monetary stimulus that helped markets rebound from bear market territory in March. Equity markets around the globe benefitted from the risk-on attitude of investors, with US and emerging markets hitting all-time highs as the first vaccine was approved to combat the virus in November. While unemployment remains elevated, economies appear to be improving.

Global Equity

The global equity composite returned 11.1 percent during the quarter, 15.5 percent over the past year and an annualized 9.1, 12.0, and 9.0 percent over the past three-, five- and 10-year periods.

US equity markets continued their strong performance from the March 2020 lows, with the S&P 500 gaining nearly 70 percent since then and finishing the year up 18.4 percent. Small cap equities, as measured by the Russell 2000, had their best quarter ever and pulled within 1 percent of large caps, significantly narrowing their underperformance for the year. Positive vaccine news also saw value posting its strongest return since 2009 as the re-opening trade that started the previous quarter continued. Energy and cyclical sectors, financials, industrials and materials led the way as every sector had positive returns.

Europe and UK equities were helped by the finalization of the Brexit trade deal and a EUR 1.8 trillion financial support package. Improving commodity prices and a weakening US dollar helped emerging markets outperform US equities in the quarter. Most developed and emerging market regions had double digit returns for the quarter. Small cap outperformance over large cap extended beyond the US's borders into developed and emerging markets.

Private equity general partners continued their work fortifying companies that struggled through COVID-19, but there was also an increase in exit activity from companies that easily weathered the storm. Distributions outpaced capital calls, which we take as a positive given the frothy valuations that our funds saw from their exits. The delayed fundraises caused by COVID-19 began to get back into the market. We expect 2021 to be busy as two years of fundraises merge into one. The efficiencies provided by Zoom should help re-ups, but new partnerships could be difficult for some investors.

Global Fixed Income

The global fixed income composite returned 2.5 percent during the quarter and 5.5 percent for the trailing year. Over longer time periods it increased an annualized 4.5, 5.6, and 6.0 percent for the three-, five- and 10-year periods. The US Treasury yield curve steepened as long-term rates increased with higher inflation expectations while short-term rates held near zero. Credit strategies had strong performance on the tailwind of vaccine news and the outlook for fiscal stimulus. Rate sensitive strategies were more muted, but still managed positive performance.

Real Assets

The real assets composite returned 2.9 percent for the quarter, -10.6 percent for the one year, and an annualized -1.8, 3.2, and 3.7 percent over the past three-, five-, and 10-year periods. Positive vaccine news also helped real assets. Real estate reversed the trends of the calendar year as retail and lodging bounced back while data centers and infrastructure suffered. Commodities continued to rebound as demand outpaces supply. Another sign of a return to normalcy is energy demand recovering to 96 million barrels per day, just below its pre-pandemic level of 100 million barrels per day.

Diversifying Strategies

The diversifying strategies composite returned 4.3 percent for the quarter, -11.0 percent for the one year, and an annualized -3.9, 0.3 and 2.9 percent over the past three-, five-, and 10-year time periods. Managed futures funds had strong returns in the quarter, while event-driven hedge funds also benefited from the risk-on environment. The biggest boost to performance was from the sale of renewable energy royalties and investments. Royalties are becoming more mainstream and desired for their low correlation to equities and consistent cash flows.

Conclusion

Policymakers injected liquidity into the financial system in an effort to stabilize markets and protect the economy from the effects of COVID-19. A combination of asset purchases from the Federal Reserve of Treasuries, mortgages, and even corporate bond ETFs, along with support from the legislative and executive branches for loose fiscal policy resulted in historically low interest rates. The result of all this was that equity markets moved to all-time highs and credit spreads tightened to below historical averages.

After experiencing three consecutive months of deflation early in the year, investors finished the year concerned with inflation moving above the Fed’s 2 percent target due to the money supply growth, loose monetary policy and weakening dollar. Increasing inflation could make it harder for endowments to maintain purchasing power and it would increase the dollar amount available for spending with our spending policy. We feel that the portfolio is positioned appropriately to take advantage of the current market environment and to meet our return objectives into the future.

Please let me know if you have any questions regarding the above information. You can reach me at (800) 648-6973.

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